

Message Text

MRN: 1975BRASIL006313 SEGMENT NUMBER: 000001 ERROR READING TEXT INDEX
FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE
ADP000
CONFIDENTIAL

PAGE 01 BRASIL 06313 02 OF 03 292309Z

60
ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
----- 119480
O 292100Z JUL 75 ZFF4
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC NIACT IMMEDIATE 651

C O N F I D E N T I A L SECTION 2 OF 3 BRASILIA 6313

NODIS

DEPT PASS AMCONSULS RIO DE JANEIRO AND SAO PAULO

PASS AMBASSADOR CRIMMINS

DEPT PASS TREASURY (SUCHMAN) AND AGRICULTURE (FAS)

(C) THE ECOMIC BENEFIT FROM THE CREDIT
INCENTIVES IS DE MINIMIS, AND ITS ECONOMIC EFFECTS
ARE ESSENTIALLY WASHED OUT BY A FIXED EXPORT QUOTA.
THE CREDIT WILL BE ABOLISHED AS OF DECEMBER 31.
IN VIEW OF THE RAPIDLY INCREASING DOMESTIC DEMAND
FOR SOYA OIL AND THE GOB'S INTEREST IN KEEPING
CONSUMER PRICES LOW, WE CONSIDER IT DOUBTFUL THE
GOB WOULD REINSTITUTE SUCH AN INCENTIVE SYSTEM FOR
OIL EXPORTS NEXT YEAR. IN ANY CASE, HESE OIL EXPORTS
ARE EXCEEDINGLY SMALL, EVEN NEGLIBLE, BY INTERNATIONAL
STANDARDS. CRUSHERS ARE ALLOWED TO EXPORT ONLY
10 PERCENT OF THE OIL WHICH THEY PRODUCE. (THERE
IS AN OVERALL EXPORT CEILING OF 10 PERCENT OF THE
SOYBEAN OIL PRODUCED BY CRUSHERS DURING 1975). ON
THIS BASIS, THE SPECIAL TAX CREDIT ON OIL EXPORTS
EFFECTIVE AUGUST 1, 1975, WORKS OUT TO ONLY ONE
HALF OF 1 PERCENT ON THE VALUE OF BEANS SINCE OIL
REPRESENTS ONLY 50 PERCENT OF THE VALUE OF THE BEANS
AND THE CREDIT IS ON 10 PERCENT OF THE VALUE OF
10 PERCENT OF THE OIL PRODUCED. AN ADDITIONAL
FACTOR REDUCING THE COMPETITIVENESS OF BRAZILIAN
SOYBEAN PRODUCTS IS THE HIGH COST OF MOVING THE
CONFIDENTIAL
CONFIDENTIAL

PAGE 02 BRASIL 06313 02 OF 03 292309Z

OIL FROM THE MILL TO ON-BOARD SHIP, INCLUDING HIGH TRANSPORTATION CHARGES AND VERY HIGH PORT CHARGES OF ALL TYPES.

7. PRODUCTION COSTS: THE GENERAL CONSENSUS IS THAT FARMERS IN RIO GRANDE DO SUL CAN PRODUCE SOYBEANS AT AN AVERAGE OF ABOUT CR\$56 PER 60 KILO BAG OR LESS, BELOW THE GOVERNMENT'S MINIMUM SUPPORT PRICE (SEE BELOW). THERE IS A BASIC PROBLEM IN ESTABLISHING AN EXACT PRODUCTION COST FIGURE BECAUSE OF DOUBLE CROPPING OF WHEAT AND SOYBEANS AND, THEREFORE, THE QUESTION OF HOW TO ALLOCATE JOINT COSTS SUCH AS DEPRECIATION OF MACHINERY USED FOR THE CROPS.

8. SOYBEAN PRODUCTS: BRAZIL IS AS YET VERY INEFFICIENT WITH REGARD TO OIL MILLS AND PRODUCTS. THE CAPACITY IS INSUFFICIENT TO MEET THE RAPIDLY INCREASING DOMESTIC DEMAND. THIS INEFFICIENCY RESULTS FROM THE LARGE NUMBER OF VERY LOW VOLUME OIL MILLS. WHILE AN OIL MILL WITH A DAILY PRODUCTION OF 1,200 TONS OF OIL AND UP IS STANDARD IN THE UNITED STATES, THERE ARE ONLY TWO MILLS OF THAT SIZE IN BRAZIL TODAY: SANBRA AND CARGILL'S MILLS IN PONTA GROSSA, PARANA. THERE ARE MANY 50 TO 100 TON A DAY MILLS WHICH ARE ESSENTIALLY ONE MAN OPERATIONS. WHILE EFFORTS ARE UNDER WAY TO INCREASE CAPACITY

THIS SITUATION WILL CONTINUE FOR THE FORESEEABLE FUTURE. CRUSHING MARGIN AT AN AVERAGE SIZE MILL VARIES FROM CR\$230 TO CR\$280 PER MT.

9. BRAZILIAN PRICE EXPECTATIONS: THE FARMERS' EXPECTATIONS ARE VERY OPTIMISTIC. SOURCE'S COMPANY HAD MADE SOME RECENT PURCHASES AT CR\$80 TO CR\$82 A 60 KILO SACK TO KEEP ITS OIL MILLS RUNNING. THE LOCAL BRAZILIAN PRICE HAD GONE UP IN RESPONSE TO THE CHICAGO MARKET AND THE BRAZILIAN FARMERS BASIC EXPECTATION IS THAT SINCE PRICES HAD STARTED UP IN LATE JULY 1974 AND BEEN HIGH IN AUGUST 1974, THEY WOULD AGAIN GO UP.

CONFIDENTIAL
CONFIDENTIAL

PAGE 03 BRASIL 06313 02 OF 03 292309Z

(A) THE BRAZILIAN MINIMUM SUPPORT PRICE IS CR\$60. THE CR\$75 PRICE (INDICATED REFTTEL) REFERS TO BRAZILIAN GOVERNMENT ANNOUNCED INTENTION TO SUPPORT 1 MILLION TONS, TO STRENGTHEN THE CONFIDENCE OF FARMERS, AT CR\$75 PER 60 KILO BAG FROM COOPS RPT COOPS. WHILE THE MECHANISM THROUGH THE BANCO DO BRASIL IS ENTIRELY IN PLACE FOR THE CR\$75 OPERATION, NO ONE RPT NO ONE

HAS SOLD AS OF JULY 18. THE MECHANISM IS TO OPERATE RATHER LIKE THE C.C.C. LOANS. THE COOP WOULD RECEIVE CR\$75 FOR A 60 KILO BAG OF SOYBEANS THE COOP IN TURN DEDUCTS HANDLING CHARGES (ESTIMATED AT CR\$2 TO CR\$3), AND PAYS THE FARMER THE DIFFERENCE. THE LINE OF CREDIT IS INTEREST FREE TO THE COOP FOR UP TO 180 DAYS. IF THE FARMER WISHES TO WITHDRAW AND SELL HIS BEANS, HE PAYS 1.3 PERCENT PER MONTH ON THE AMOUNT OF HIS LOAN DURING THE PERIOD THE COOP HAS HELD HIS BEANS. IF AT THE END OF THE SIX MONTH PERIOD, THE FARMERS DECIDE NOT TO SELL, THE OWNERSHIP OF THE BEANS PASSES DEFINITELY TO THE BRAZILIAN FEDERAL GOVERNMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 06313 03 OF 03 292345Z

60

ACTION NODS-00

INFO OCT-01 ISO-00 (ISO) W

----- 120424

O 292100Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC NIACT IMMEDIATE 652

C O N F I D E N T I A L SECTION 3 OF 3 BRASILIA 6313

NODIS

DEPT PASS AMCONSULS RIO DE JANEIRO AND SAO PAULO FOR INFO

PASS AMBASSADOR CRIMMINS

DEPT PASS TREASURY (SUCHMAN) AND AGRICULTURE (FAS)

(B) IT IS UNCERTAIN HOW THE MECHANICS OF THE PROPOSED BRAZILIAN SYSTEM WOULD PRECISELY WORK, BECAUSE THE MECHANISM IS ILL DEFINED. IT IS NOT CLEAR WHETHER THE SOYBEANS WOULD BE DELIVERED TO A GOVERNMENT WAREHOUSE OR RETAINED IN THE COOP WAREHOUSE. IN THE CASE OF COFFEE, THE PROCESS IS CLEARLY ESTABLISHED. THE FARMER BEARS THE COST AND RESPONSIBILITY OF DELIVERING HIS PRODUCT TO AN IBC (COFFEE INSTITUTE) WAREHOUSE AND IS PAID THE SUPPORT PRICE ON UNLOADING. IN THE

RECENT CASE OF COTTON, THE GOVERNMENT IS BUYING BALES OF COTTON, SOMETIMES IN THE SELLER'S WAREHOUSE OR WAREHOUSES IN SAO PAULO STATE. SOURCE'S COMPANY HAD SOLD SOME COTTON TO THE GOVERNMENT IN ITS OWN WAREHOUSES, AND THE GOVERNMENT HAD ASSUMED THE COST OF TRANSFERRING THE COTTON TO THE CENTRAL WAREHOUSE LOCATION. THE PROBLEM WITH SOYBEANS IS THAT THEY ARE NOT AS EASILY STORED AS COTTON OR COFFEE. THE IBC WAREHOUSES ARE A POSSIBLE SOLUTION FOR THE STATE OF PARANA BUT THERE ARE NO SUCH WAREHOUSES IN THE STATE OF RIO GRANDE DO SUL, THE MAJOR SOYBEAN PRODUCER. THERE ARE SOME STATE WAREHOUSES IN RIO GRANDE DO SUL (CESA) BUT THE SPACE IN THESE WAREHOUSES COULD NOT

CONFIDENTIAL

PAGE 02 BRASIL 06313 03 OF 03 292345Z

BE BLOCKED OFF TO HOLD SOYBEANS INDEFINITELY. THE WHEAT CROP WILL BE COMING IN AND THE STORAGE SPACE WILL BE NEEDED, ALTHOUGH, OF COURSE, ADDITIONAL WAREHOUSING SPACE IS BEING BUILT. SOURCE REPEATED THAT THE GOVERNMENT'S CR\$75 SUPPORT SCHEME WAS PSYCHOLOGICAL RATHER THAN AN EFFECTIVE PROGRAM.

(C) IF THE LOCAL PRICE IN BRAZIL WERE TO GO BELOW CR\$75, SOURCE IN SAO PAULO THOUGHT, FARMERS BEHAVIOR WOULD DEPEND ON WHETHER THE PRICE STAYED BELOW THE LEVEL FOR MORE THAN THREE WEEKS. AT FIRST, FARMERS WOULD SIMPLY REFUSE TO SELL. THEN, HE THOUGHT, THE FARMER WOULD EVENTUALLY COME TO A PROCESSING COMPANY SUCH AS HIS OWN AND ASK THE COMPANY TO TAKE THE BEANS OFF HIS HANDS, PAYING HIM SAY CR\$20 A KILO BAG, AND ACCEPTING AN ARRANGEMENT THAT THE FARMER WOULD FIX THE PRICE WITHIN 90 DAYS. THE FARMER WOULD NOT ACTUALLY ENTER INTO AN AGREEMENT WITH THE GOVERNMENT, EVEN IF THE PRICE WENT DOWN TO CR\$60. THE CR\$60 PRICE WAS A PRICE WHICH THE GOVERNMENT WAS OBLIGATED TO PAY, BUT HISTORICALLY THE GOVERNMENT HAS YET TO BUY A SINGLE BAG AT THE SUPPORT PRICE LEVEL.

(D) SPECIFICALLY, ANSWERING A QUESTION AS TO WHAT THE GOVERNMENT WOULD DO SHOULD DOMESTIC (NOT RPT NOT EXPORT) PRICES FALL BELOW THE CR\$75 PRICE, SOURCE SAID GOB WOULD HAVE TO HONOR ITS COMMITMENT TO FINANCE UP TO ONE MILLION TONS, IF OFFERED, AND ULTIMATELY ASSUME OWNERSHIP. THE GOVERNMENT WOULD PROBABLY EVENTUALLY HAVE TO BUY MORE THAN ONE MILLION TONS. THE GOVERNMENT HAS A LEGAL OBLIGATION TO BUY ANY AND ALL SOYBEANS OFFERED TO IT AT THE CR\$60 MINIMUM SUPPORT PRICE, BUT PRESUMABLY THE PRICE WOULD NOT GO THAT LOW. (PARTICULARLY IN TERMS OF FUTURE EXCHANGE RATE).

(E) WITH RESPECT TO THE INCIDENCE OF ICM TAXES,

THE SOURCE STATED THAT THIS STATE (TUOVER) TAX
VARIES SLIGHTLY BETWEEN STATES, AS DO THE RULES
CONCERNING ITS PAYMENT. BASICALLY, THE BUYER FROM
THE FARMER ASSUMES THE RESPONSIBILITY. THE FARMER
IS PAID THE QUOTED PRICE OF SAY CR\$80 FOR 60 KILO BAG.
IN RIO GRANDE DO SUL, SOURCE'S COMPANY MAY BUY FROM
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06313 03 OF 03 292345Z

AN INTERMEDIARIO OR IN US PARLANCE A GRAIN ELEVATOR
OPERATOR, IN THIS CASE, THE PURCHASER
PAYS THE INTERMEDIARIO SAY CR\$80 PER BAG PLUS THE
ICM, CREDITS THE AMOUNT OF THE ICM PAID ON HIS OWN
BOOKS AND DEBITS THE AMOUNT WHEN HE EXPORTS THE
SOYBEANS. IN THE MAJOR SOYBEAN STATES, THE CRUSHER
BUYS FROM THE FARMER AND CAN TRANSPORT THE BEANS
AND PRODUCTS FREELY THROUGHTOUT THE STATE. HE PAYS
THE ICM WHEN HE: A) EXPORTS THE BEANS OR THE
PRODUCTS; B) MOVES THE BEANS OR PRODUCTS ACROSS
THE STATE LINES, OR C) SELLS THE PRODUCTS WITHIN
THE STATE.
RUSER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, CAT-A, SOYBEANS, SUBSIDIES, TRADE CONTROLS, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUL 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL06313
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: CORE1
Film Number: n/a
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 2
Legacy Key: link1975/newtext/t1975079/aaaaaifa.tel
Line Count: 248
Locator: ADS TEXT UNRETRIEVABLE
Office: ACTION NODS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: NODIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <17 Sep 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: LOCK1
Status: NATIVE
Subject: BRAZILIAN SOYBEANS: EXPORT INCENTIVES AND SUBSIDIES
TAGS: EAGR, EFIN, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006